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Role of RRBs in Indian Rural Economy

ABSTRACT

RRBs was established in 2nd October, 1975 with the notion of augmenting the outreach of the institutional channel of credit in the remotest corner of rural India. Today they face a number of impediments in their growth. Gangible reforms are necessary to make them work in today's competitive world. RRBs have some features co-operatives and some features of commercial Banks. Like co-operatives they are rural oriented and they are familiar with rural problems. The cost of management is also low since local people are recruited at a lower salary. Side by side, like commercial banks, they operate as business organizations. They are empowered to mobilise deposits and they have access to central money market. Each RRB is a sponsored organization. It is mainly sponsored by a nationalised Commercial Bank. The sponsored commercial bank provides financial assistance to the RRB, in several ways. Besides providing share capital to RRB, the sponsored bank also provides managerial and other staff assistance. Lack of managerial efficiency is a weakness of village level cooperative societies. RRBs should have to establish their own credibility among the rural poor. This can be done only by understanding their problems and solving them properly through the timely supply of credit and other required services for their economic upliftment.

1. INTRODUCTION

The Small and Marginal farmers, rural artisans and agricultural labourers are deprived of the crucial inputs of timely and adequate credit from the institutional sources. RRBs was established in 2nd October, 1975 with the notion of augmenting the outreach of the institutional channel of credit in the remotest corner of rural India. Today they face a number of impediments in their growth. Gangible reforms are necessary to make them work in today's competitive world.

Agriculture in India provides livelihood to more than two thirds of the country's population. First Five Years Plan (1951-1956) to the Tenth Plan (2002-2007). The agricultural development has been given due importance. During the above period inspite of the impressive stride made by the institutional channel in rural areas, the government felt that the small and marginal farmers rural artisans and agricultural labourers, are deprived of the crucial inputs of timely and adequate credit from the

institutional sources. The Government has been taking elaborate and extensive initiatives (both policy and administrative) augment to outreach of formal channel or rural masses.

RRBs were established in 1975.

RRBs were conceived with the notion augmenting the outreach of the institutional channel of credit in the remotest corner of rural India. Five RRBs were established in the first place in 1975. Today, the country has 104 RRBs, sponsored by 29 banks. Operating in 484 districts with more than 14400 branches and employing about 70,200 persons.

2. FEATURES OF RRBs

The RRBs have some distinct features, which are different from both the commercial banks and the Co-operative Banks. The features are as following:

1. The area of RRBs is limited to a specifies region comprising one or more districts of a State. The branches of a RRB are

established in those areas of the region, where commercial and cooperative bank credit supply is inadequate, where the weaker section rural population is large and where there is sufficient potential for agricultural development.

2. RRBs provide credit both directly and indirectly. The RRBs grant direct loans and advances only to small and marginal farmers, rural artisans and agricultural labourers and others of small means for productive purposes. Indirect loans are given through co-operative societies operating within RRBs area.
3. Like Commercial banks, they are empowered the mobilise rural savings through deposits.
4. Like Co-operatives banks they provide credit at cheaper rate of interest. The lending rates of RRBs should not be higher than the prevailing lending rates of co-operative societies in any particular State.
5. RRBs enjoy some concession in regard to requirement of cash reserves, liquidity, interest rates on deposits. The RRBs are allowed to offer one and a half percent additional rate of interest on its deposits over the rate offered by scheduled commercial banks. Thus, the sponsoring banks and the RBI provide many subsidies and concessions to RRBs to enable the latter to function effectively. The financial resources of the RRBs are utilised in the district where they operate. In other words, RRBs resources are not diverted to the outside of the area of operation. RRBs role is to supplement and not to supplant the other institutional agencies operating in the rural area.

Thus, RRBs have some features co-operatives and some features of commercial Banks. Like co-operatives they are rural oriented and they are familiar with rural problems. The cost of management is also low since local people are recruited at a lower salary. Side by side, like commercial

banks, they operate as business organizations. They are empowered to mobilise deposits and they have access to central money market. Their outlook is also more modernised in comparison to co-operative part of the organisation. In other words, RRBs work as a hybrid of co-operatives and commercial banks in rural sector of our economy.

3. OBJECTIVES OF RRBs

1. The original objective of the RRBs was to bring progress with social justice to the rural poor who were generally denied access to financial services from commercial banks.
2. To make available the loan and other services the marginal farmers, agricultural labourers, artisans and small scale entrepreneurs so that the development activities increased in agriculture, trade, industry and other related services even in remotest rural areas.
3. To fulfil the need for timely and adequate credit to weaker sections of society, rural artisans, landless agriculture labours, self-employed peoples, small and retail traders to help in production and marketing related activities.
4. To bridge the gap between the banking facilities available in urban and rural areas.
5. As far as possible, employees appointed in RRBs should belong to the operational area of the bank, so that they can well understand the requirements and specific problems of the local people and thus help them to solve their problems easily and effectively.

4. MANAGERIAL STRUCTURE OF RRBs

Each RRB is a sponsored organization. It is mainly sponsored by a nationalised Commercial Bank. The sponsored commercial bank provides financial assistance to the RRB, in several

ways. Besides providing share capital to RRB, the sponsored bank also provides managerial and other staff assistance. Lack of managerial efficiency is a weakness of village level cooperative societies. In order to ensure such efficiency in the RRBs, the management has been entrusted to a nominated Board of Directors headed by a Chairman. Of the nine directors three are nominated by the Central Government, two by the State Government and the remaining including the Chairman by the sponsoring Commercial Bank. The Chairman is a full time professional executive, appointed by the Central Government. But he is usually an employee of the sponsoring bank on deputation with the RRB. The Board of Directors represent the Central Government, sponsoring bank and the State Government through their nominees.

However, the day-to-day business is conducted by the Chairman as RRBs executive head. Except Chairman, there are other employees like Branch Managers, accountants, field officers, field assistants, clerks, cashiers, peons, etc. in the RRBs to look after the day-to-day management. Some employees are on deputation from the sponsoring Bank and some are appointed directly by the RRB from the local areas. The sponsoring bank pays the full salary of the Chairman and also of the other staff on deputation with the RRB. Thus, RRBs are completely rural-oriented like co-operatives.

5. EVOLUTION OF RRBs

The number of RRBs increased from 5 in October 2, 1975 to 19 by June, 1976. This number increased to 40 at the end of 1976 and then to 51 by the end of 1978. Till 1978, the expansion of such banks was slow because of some sort of reservations and reconsiderations about the speed with which new RRBs should be opened. However, after 1978 the group of RRBs and their branches have increased substantially on account of the strong support and favourable

recommendations made the Revised Committee (Dantawala Committee). By March, 2005, the RRBs increased to 196 and have 14433 branches all over the country. The deposits and advances were Rs. 62143 and Rs. 32,870 crores respectively at the end of March 2005 and the advances granted to small and marginal farmers, landless labourers and rural artisans constituted more than 90% of the total loan. The performance of RRBs, both in terms of deposits and advances in quite impressive. So far these banks have shown commendable progress in respect of their coverage, deposit mobilisation and deployment of credit in the rural sector of the economy.

The Government of India has finalised the proposal to amalgamate all the 196 RRBs to form the National Rural Bank of India. After amalgamation as on August 31, 2006, the RRBs decreased to 104. Its share capital will be Rs. 200 crores, out of which 76% will be available from NABARD and 24% from existing employees of RRBs and all the losses of RRBs would be neutralised.

6. PROBLEMS OF RRBs

The RRBs Continue to face a number of problems in course of their operation. These are as follows :

- Competition from other agencies.
- Decline in profit.
- Exclusion of medium and large farmers for getting finance from RRBs acts against the smooth functioning of such banks.
- Wrong identification of beneficiaries.
- Non-availability of good premises for banks in some rural areas.
- Demand for higher pay and other allowances from the RRB employees.
- Misutilisation of credit and mounting overdues.
- Lack of coordination.

- Inadequate volume of credit for non-agricultural activities and consumption.
- Inadequately trained and technical staff.

7. SUGGESTED MEASURES

Before starting any branch of RRB, it should get due approval from the locality. In other words, the people, the social leaders of the concerned locality should be convinced about the need for such an institution :

1. Large and medium farmer's credit need should be met through RRBs, if the cooperatives in the areas are fully dormant. This has been endorsed by the Review Committee.
2. The branch expansion programme should be undertaken quickly, taking into account to potentiality and the ability of the financial institutions already operating in a particular locality.
3. For the identification of borrowers, the village committees are to be consulted and no dues certificates are to be demanded.
4. Good premises for the bank and better amenities for the staff are to be provided. Further, appointment of adequate staff with rural background should be undertaken.
5. In order to strengthen RRBs, proper coordination is to be ensured amount the credit and non-credit institution.
6. The RRBs should make earnest efforts to utilise the maximum possible extent of refinancing and borrowing facilities for raising their earning assets and at the same time the importance of deposits cannot be belittled.
7. Timely supply of credit should be made and unnecessary delay in processing and

- granting loans should be avoided.
8. Daily deposit schemes and seasonal deposit schemes are to be encouraged in the rural areas. This will increase the saving capacity of the poor people.
9. The involvement of middlemen in the sanction and repayment of RRB loans should be discouraged.
10. RRBs may consider the question of consumption loans to be granted to trustworthy borrowers with proven records.
11. Bank official should develop close intimacy with the rural mass.

8. CONCLUSION

Regional Rural Banks have been making concerted efforts for the upliftment of the weaker sections of the rural sector. They are gradually becoming viable institutions to meet to credit requirements of the rural poor. Despite the massive branch expansion programme and huge deployment of credit, commercial banks have not yet fully established themselves in the rural sector. In this context, the James Raj Committee appointed by the RBI in 1977 pointed out that commercial bank lack motivation and supervisory and management control. So RRBs having rural base and local flavour can better server the rural poor. In view of the existence of around 38% of the people wider the poverty line even now in the rural sector, the RRBs have to strive hard for rural development. Yet, RRBs should have to establish their own credibility among the rural poor. This can be done only by understanding their problems and solving them properly through the timely supply of credit and other required services for their economic upliftment.

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